BRITAIN

Britain clamps lid of secrecy on economic bad news

Investors tempted by high interest rates to increase their holdings of British pounds or buy up Government securities may be betting on a dead horse. The British economy is in such bad shape that Treasury forecasts on unemployment and inflation have been suppressed because of their "acute political sensitivity," according to the *Sunday Observer*. In addition, trade figures for May, published this week, would have been three times worse were it not for the camouflaging effect of North Sea oil revenues and the fact that strikes by the computer staff prevented up-to-date calculation of trade statistics.

Economic projections for 1979-1980 prepared by the British Treasury are so daunting that officials have been told by Ministers to shy away from any mention of them. Government departments, such as Employment and Industry, which normally receive detailed price and employment forecasts with their copies of the Exchequer's Budget, received no such breakdowns this time around. The forecasts, part of a batch of short- and medium-term assessments of Britain's economic prospects for the next five years, present a picture which the Tories have good reason to want suppressed.

The forecasts, leaked to the *Observer* and the *Economist*, present the prospect of an almost stationary economy, in which unemployment rises from 1.4 million to above two million, inflation builds toward 20 percent, and the balance of payments poses "permanent constraints" on further government spending.

The inflation predictions which *were* made public by Chancellor of the Exchequer Sir Geoffrey Howe, in financial statements accompanying the Budget, indicate that inflation will rise to at least 16 percent by the third quarter of 1979. However, one day later, the Secretary for Social Services was forced to disclose that inflation in the 12 months ending this November was expected to rise by another one and one half points to 17½ percent. Ministers are forcefully

BANKING

Financial Times meet maps fire sale of U.S. banking system

The London *Financial Times* June 18-19 conference on World Wide Investment in the United States, held in New York, resembled a post-fire auction of the U.S. banking system. Conference addresses by conference chairman Lord Thomson of Monifieth, former British EEC Commissioner, Edward Palmer, Chairman of the Executive Committee of Citibank, and Frank Weil, U.S. Assistant Secretary of Commerce, told the largely British and Anglophile audience that the U.S. dollar is probably finished as the world currency. It might yet be saved, they said, if only a large part of the U.S. banking system and economy could be sold off to foreigners, generating a capital inflow into the dollar.

New York State Banking Superintendent Muriel Siebert, who has vigorously fought what she termed "foreign control of U.S. capital assets" in the case of Britain's Hongkong & Shanghai Bank's attempted takeover of Marine Midland, notably failed to lend any note of reason in her luncheon speech to the gathering. Focusing on the generalities of New York State's tax breaks for foreign investors, she failed to even mention the multiple foreign bank takeovers of New York banks.

In Albany, Siebert's political opponent New York Governor Hugh Carey, took the opportunity of the Superintendent's low profile June 20 to veto her "Takeover Bill" (New York Senate 3333) which would have given the New York State Banking Department the right to actually prevent foreign banks from buying shares of New York banks. (At present the Department may block the voting of such shares once purchased.) New York Senate supporters of Siebert doubt they have the votes to override Carey.

Siebert did tell *EIR* June 18 that, contrary to Albany rumors, she "didn't intend to let the Takeover Bill's possible defeat influence her decision on HongShang. "I intend to rule before June 30," she said, but refused to indicate for or against the takeover.

Dollar fundamentally weak

Lord Thomson first set the tone with his opening remark that the recent denying that inflation levels will go beyond 20 percent this winter, but they accept that there is a possible margin of error of at least two percent.

The Henley Center for Economic Forecasting has already computed that unemployment will rise to 3 million or more by the 1980s unless the government takes immediate action. Measures recommended by the Henley Center include compulsory national service and a switch from academic to industrial training.

The appalling trade figures for the first half of 1979 are seen by the Treasury not as a freak, but as the confirmation of a worsening trend. The picture outlined by the forecasts is "so unrelievably gloomy", says the *Observer*, that it has reinforced the Government's belief that the country is in danger of going into absolute economic decline. Even the staid London *Economist* admits that the outlook shows a "real slump in Britain, while the industrial world merely slows down."

The Tory government meanwhile still contends that all the economy needs is a cold douche of "free enterprise." But neither workers nor industrialists have yet been convinced that bankruptcies and lengthening dole queues caused by the withdrawal of state subsidies to the industrial sector can produce an industrial revival.

When Thatcher's Industry Minister, Sir Keith Joseph, took the message about "free enterprise and individual initiative" to workers at the Govan Shipyard in Glasgow last week, he was nearly booted out. Nine hundred jobs at the shipyard are scheduled to come under the government's knife. After visiting the Prestcold refrigerator factory where workers have been fighting a losing battle to keep the plant from being shut down, Joseph complained that Scottish workers shared the same "cultural" problems with their counterparts in Britain—a "bias against enterprise and an overwhelming assumption that salvation would come from the government."

Adding to Sir Keith's headaches, a three-day British Institute of Management conference entitled "Enterprise '79"—at which the commercial virtues of private investment were to be spelled out by entrepreneur Sir James Goldsmith, Michael Pocock of Shell Transport and Trading, and Sir Keith Joseph himself—had to be cancelled for lack of interest.

—*Marla Minnicino*

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year's collapse of the U.S. dollar is the major reason why the U.S. economy, especially its banking sector, is a "doubly good buy" at present, the other being the depressed U.S. stock market. Dollar weakness, he said, is fundamentally expected to continue, making these prospects even more favorable.

Following him, Citibank's Mr. Palmer outlined why this means that foreign banks should take over increasing slices of the New York banking markét. "New York has been a beneficiary of the dollar's continuing long-term fall because it has encouraged increasingly foreign institutions to purchase banking assets here," he said, "thus turning New York into an increasingly international money center. Of course," he admitted, "the presence of U.S. banks in the world's top ten in terms of banking assets has slipped dramatically because of the dollar's decline."

This must be dealt with, Palmer said, by further deregulation of the U.S. banking system under proposals such as the New York free banking zone, which would turn the U.S. into another London Eurodollar market. "Our assets have been regulated, taxed and supervised down," he said, and we need the free zone to stop this.

U.S. Assistant Secretary of Commerce Frank Weil was equally eager to sell the U.S.—particularly to the British. He began by asserting, "We are too xenophobic vis-à-vis foreigners ... and have too many laws governing foreign investment. ... Since we have a serious shortage of technology in the U.S., we can benefit as we did 120 years ago when the British built our railroads, from new foreign investments in technology."

Foreigners should be allowed by new laws to purchase as much of the economy as possible, Weil contended. As his best example, he cited the pending purchase of Marine Midland by HongShang. "The foreign banks will own some 11 percent of U.S. banking assets ... once again, foreigners will lead us in investment here as they did in the 19th century. ... In this context, we must reconsider laws in some 20 states which now restrict ownership not only of banks but of land, industry, etc."

Winfried Spaeh, Executive Manager of Germany's Dresdner Bank in Frankfurt, was the only speaker to deliver even a weak call for the dollar to remain the international currency. He added, however, that the dollar's weakness "only underscores the importance of foreign banks' establishing a foothold in the U.S.," so as to have a secure source of dollars in the event of a major Euromarket crisis. For this reason, Spaeh said, he would "welcome the establishment of an offshore Eurocurrency market [free zone—Ed.] in the U.S."

—*Kathy Burdman*